Plimoth Investment Advisors®
INVESTMENT MANAGEMENT & TRUST SERVICES SPECIALISTS

SECOND QUARTER – SUMMER 2018

INVESTMENT SPOTLIGHT

"It's not what you look at that matters, it's what you see."
– Henry David Thoreau

There was no shortage of market moving headlines over the past few months, with much of the focus shifting beyond our borders to more global matters. U.S. investors were given more than enough news to look at, digest and determine what they see as the potential impacts for financial markets at home and abroad. Global trade rhetoric which began earlier in the year turned into tangible tariffs being put into place. To date over $80 billion of new tariffs have been levied by the U.S on goods imported from other countries and hundreds of billions more threatened. The 44th G7 summit took place in June, dubbed the "G6+1" by members of the media in France and making its way into U.S. publications. The designation signified the sense of isolation of the U.S. from the group of world leaders given the disparate views on key matters, particularly with respect to the proposed reinstatement of Russia to recreate a G8 group. The summit ended without a joint communication as statements espoused by the group were disavowed by President Trump. History was made later in the month as President Trump met face to face with North Korean leader Kim Jong-un in Singapore. While no changes were made on sanctions, the general talk of peace, diplomacy and disarmament struck a positive tone. The U.S. agreed to halt military exercises in South Korea, an act of good faith and a considerable cost savings. These headlines followed news that the U.S. had backed out of the Iran nuclear deal as well as heightened tensions with Russia over Syria, more than enough geopolitical worry to go around.

Keep up with market activity by visiting www.plimothinvestmentadvisors.com. Our weekly market commentary can be found at the "Market Commentary" button in the lower right hand corner.

Back at home, Congress passed a bank regulatory relief bill with bipartisan support, rolling back some of the post financial crisis reactionary rules implemented by the Dodd-Frank Reform Act. Combined with a myriad of opinions relating to the impact of tax reform, business investment, personal consumption and Fed policy talk, investors had plenty of big picture macroeconomic considerations to factor into their thinking during the quarter. ■

Economic Review & Outlook

Economic growth for the first quarter was revised downward and back up again before settling at a mere 2.2%. While this is a stronger start to the calendar year than the past three years, Gross Domestic Product (GDP) fell below the start we were expecting for the year. Personal consumption, the largest component of the growth measure, was lackluster. Fortunately, a first look at Retail Sales for the second quarter shows a marked recovery from the revised sluggish prints from earlier in the year.

Employment in the U.S. remains robust with headline unemployment reaching a low of 3.8% during the quarter, the lowest level since 2000, before ticking back up modestly to 4.0%. Continuing jobless claims of Americans receiving unemployment benefits reached the lowest level since 1973 and the time to fill a job vacancy surpassed 30 days for the first time in two decades. Layoffs became increasingly rare and employees were more willing to quit jobs. The total number of open positions surpassed those actively

seeking employment driven by the mismatch between job seekers' skills and opportunities. Despite the tight labor market, wage growth has remained tepid, increasing only slightly to 2.7% on a year-on-year basis.

Inflation has begun to tick up modestly, showing up more prevalently in the costs manufacturers pay as measured by the Producer Price Index (PPI). Year-on-year PPI for June was higher than anticipated at 3.4%.

	Q2-2018	YTD-2018
Consumer Discretionary	8.17%	11.52%
Consumer Staples	-1.54%	-8.55%
Energy	13.48%	6.81%
Financials	-3.16%	-4.09%
Healthcare	3.09%	1.83%
Industrials	-3.18%	-4.69%
Information Technology	7.09%	10.87%
Materials	2.58%	-3.08%
Telecommunications	-0.94%	-8.35%
Utilities	3.74%	0.32%

Core PPI, excluding food and energy, was also higher than consensus at 2.8%. Consumer prices edged up more modestly showing a continued lack of pricing power for producers. Year-on-year CPI was in line with expectations at 2.9% and the Core reading was a tick above consensus at 2.3%. The only signs of consumer price pressure came from medical care and rents. These figures combined with Core Personal Consumption Expenditures (PCE) reaching the Fed's target of 2% give the Fed more of a leg to stand on justifying ongoing tighter rate policy.

Housing showed signs of slowing during the quarter. Low levels of inventory of existing homes for sale combined with rising home prices and increased mortgage rates all played a part in the slowdown. U.S. housing starts fell short of expectations and hit a 9-month low. Total building permits also declined in each consecutive month of the quarter.

Despite being in late innings of the current economic cycle, we remain positive on near-term prospects for U.S. economic growth. The first print of estimated Q2 GDP was in line with high expectations, reported at a much stronger level of growth than the previous quarter at 4.1%. ■

Bond Market Review & Outlook

The Federal Open Market Committee continued down the path of tighter monetary policy much as traders had anticipated. A 0.25% increase to the Fed Funds rate in June is the seventh such hike in the current cycle. The probability of an additional hike this year, for a total of three in 2018 has been fully priced in since that time, however the odds of a fourth hike before year end have vacillated quite a bit. We don't see the economic data supporting a fourth hike within the year but are not ruling it out. The Fed's "dot plot" of rate projections and comments all point to a resolute stance on sticking to the stated plan of hiking rates, despite the recessionary concerns stated by those with opposing views. Rising rates and some degree of credit spread widening have led to very modest to negative returns for bond investors thus far in 2018. The yield curve continued to flatten over the quarter with the spread between the 2-Year and

10-Year U.S. Treasury Bonds ending the month of June at 0.33%. Yield on the 10-Year Treasury briefly surpassed 3% in May for the first time in four years before settling back down to 2.86% at quarter end.

The added liquidity afforded to companies from tax relief has led to paying down of debt and a sharp pullback in new corporate debt issuance. We continue to believe that focusing on high quality bonds will best serve our investors, owning bonds with the highest likelihood of return of principal at maturity as opposed to chasing yields of riskier fixed income investments. We are continuing to focus on short to intermediate term bonds as the premium to lock up capital with longer maturities remains unattractive. ■

	Q2-2018	YTD-2018
Cash:		
FTSE 3 Mo. T-Bill Index	0.44%	0.79%
Taxable Fixed Income:		
Barclays US Agg. Bond	-0.16%	-1.62%
Barclays Govt./Credit Int.	0.01%	-0.97%
Barclays Govt./Credit Long	-1.45%	6-4.98%
BofAML High Yield Index	1.00%	0.08%
Tax Exempt Fixed Income:		
Barclays Muni. 5 Yr.	0.87%	0.30%
Barclays Muni. 7 Yr.	0.97%	-0.25%
Barclays Muni. TR	0.87%	-0.25%

Stock Market Review & Outlook

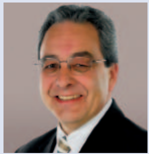
The S&P 500 finished the first half of the year in the black, up 2.7%. Positive second quarter returns of 3.4% erased modest losses from the first quarter. The ride along the way was not nearly as muted as the end results suggest. Talk of global trade tariffs and threats of reprisals led to impulsive trading and heightened volatility through numerous trading sessions. The technology-heavy NASDAQ index built on earlier gains, up 6.6% in the quarter and 9.4% year-to-date through June. The Dow Jones Industrial Average however, remained in the red -0.7% through June. Stock returns during the quarter had very narrow leadership with investors bidding up the growthiest areas of the market.

The energy sector was the strongest of the quarter, led by a spike in oil prices to the highest level in three years. Consumer discretionary and information technology stocks built on the gains from earlier in the year to remain the strongest two sectors thus far. Small cap stocks meaningfully outperformed large during the quarter, up 7.8%. Investors favored smaller, more domestically-oriented, companies as tough talk on trade between the U.S. and the world, particularly China, evolved into protectionist tariffs. The momentum in growth stocks outperforming value carried through the quarter. Real Estate Investment Trusts (REITs), an integral part of our portfolio diversification strategy, recovered nicely during the quarter, outperforming small cap stocks as investors focused more on their domestic-orientation and valuations than interest rate sensitivity which drove earlier sell offs, making the asset class particularly attractively priced.

	Q2-2018	YTD-2018
DJIA Index	1.26%	-0.73%
S&P 500 Index	3.43%	2.65%
Russell 2000 Index	7.75%	7.66%
MSCI EAFE Index	-1.24%	-2.75%

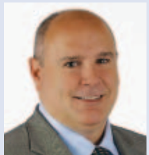
Corporate profits were strong once again, the result of solid top-line revenue growth, the tax reform tailwind and a lack (so far) of wage pressure outside of narrow areas such as trucking. Companies in the S&P 500 Index grew profits by more than 20% in the first quarter, the highest since 2010. Nine out of 11 sectors reported double digit earnings growth, and positive earnings surprises have been the rule rather than the exception thus far in the year. Stock price reactions to the good news were muted however, in an environment aptly describing stocks as "priced to perfection." Stated differently, after seven consecutive quarters of positive earnings growth, investors are no longer easily impressed.

Meet the Plimoth Investment Advisors Executive Leadership Team



George Oliveira, CFP®, CTFA
Chairman of the Board
508-675-4310
goliveira@pliadv.com

Steven A. Russo, CFA
President & CEO
508-591-6202
srusso@pliadv.com



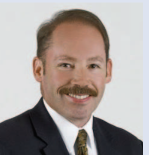
Louis E. Sousa, CFA
Senior Vice President & Chief Investment Officer
508-675-4313
lsousa@pliadv.com

Susan Sartini, CTFA
Senior Vice President & Senior Trust Officer
508-591-6203
ssartini@pliadv.com

Joseph R. King
Senior Vice President & Trust Counsel
774-319-3695
jking@pliadv.com

Edward J. Misiolek
First Vice President & Operations Officer
508-675-4316
emisiolek@pliadv.com

Meet Our Business Development Team



Thom Miller
Vice President / Relationship Officer
Individual & Institutional Accounts
781-320-4865
tmiller@pliadv.com

Lucia Rebelo
Retirement Plan Officer
508-742-4714
lrebelo@pliadv.com

Justin Jeffrey
Retirement Plan Officer
508-591-6204
jjeffrey@pliadv.com

508-747-6596 • www.PlimothInvestmentAdvisors.com

Valuations for U.S. stocks improved over the quarter with the price to earnings (P/E) ratio on a trailing 12-month basis at 21.3x. Forward valuations are more attractive as well at 17.5x, implying a solid double-digit level of growth. On a sector basis, the pullback of telecomm stocks has that market segment offering the most compelling value as a whole, while there are more selective opportunities for value within other sectors. We remain constructive on value within REITs as well, particularly given the attractive dividend yields.

Our near-term outlook for U.S. equities remains favorable given an improved valuation picture thanks to continued strength in corporate profits. Stock buybacks in 2018 are expected to surpass the single year record of $650 billion set in 2007 which serves as an ongoing tailwind for stock prices. Despite the rise in volatility and new concerns of global trade tariffs, we remain resolute in our expectation cited in early letters that the current bull market will stand as the longest on record in the final quarter of 2018. ■

Closing Thoughts

We need to digest and interpret the ever-present countervailing arguments of why the stock market should continue/end its historic climb. As Thoreau so aptly states, there is much we can and do look at, but a sound investment strategy is based on what is seen and understood. We will continue to manage client capital with a long-term mindset and make strategic adjustments along the way as warranted.

If we can be of assistance to you along the way, please do not hesitate to call us at the numbers provided. ■

If you are interested in receiving this quarterly newsletter electronically, please contact Thom Miller at tmiller@pliadv.com. We will be happy to take you off the mailing list and add you to the e-mail list.